INTERSTATE POWER COMPANY
NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General - The financial statements include the accounts of Interstate Power Company (IPC), which is a subsidiary of Alliant Energy Corporation (Alliant Energy). IPC is engaged principally in the generation, transmission, distribution and sale of electric energy and the purchase, distribution, transportation and sale of natural gas in selective markets. The principal markets of IPC are located in Iowa, Minnesota and Illinois.

The financial statements are prepared in conformity with generally accepted accounting principles, which give recognition to the rate making and accounting practices of the Federal Energy Regulatory Commission (FERC) and state commissions having regulatory jurisdiction. Certain prior period amounts have been reclassified on a basis consistent with the current year presentation.

The preparation of the financial statements requires management to make estimates and assumptions that affect: a) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements; and b) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Regulation - IPC is subject to regulation by the FERC, the Iowa Utilities Board (IUB), the Minnesota Public Utilities Commission (MPUC) and the Illinois Commerce Commission.

(c) Regulatory Assets - IPC is subject to the provisions of Statement of Financial Accounting Standards (SFAS) 71, „Accounting for the Effects of Certain Types of Regulation." SFAS 71 provides that rate-regulated public utilities record certain costs and credits allowed in the rate making process in different periods than for unregulated entities. These are deferred as regulatory assets or regulatory liabilities and are recognized in the Statements of Income at the time they are reflected in rates. At December 31, 1999 and 1998, regulatory assets of $69.5 million and $73.9 million, respectively, were comprised of the following items (in millions):

	1999	1998
Tax-related (Note 1(d))	**$29.7**	$29.8
Energy efficiency program costs	**23.9**	25.9
Environmental liabilities (Note 9(c))	**15.7**	17.5
Other	**0.2**	0.7
	$69.5	$73.9

Refer to the individual notes referenced above for a further discussion of certain items reflected in regulatory assets. If a portion of IPC's operations become no longer subject to the provisions of SFAS 71 as a result of competitive restructuring or otherwise, a write-down of related regulatory assets would be required, unless some form of transition cost recovery is established by the appropriate regulatory body that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets during such recovery period. In addition, IPC would be required to determine any impairment to other assets and write-down such assets to their fair value.

(d) Income Taxes - IPC follows the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax assets and liabilities, as appropriate, for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Deferred taxes are recorded using currently enacted tax rates.

Except as noted below, income tax expense includes provisions for deferred taxes to reflect the tax effects of temporary differences between the time when certain costs are recorded in the accounts and when they are deducted for tax return purposes. As temporary differences reverse, the related accumulated deferred income taxes are reversed to income. Investment tax credits have been deferred and are subsequently credited to income over the average lives of the related property.

Consistent with Iowa rate making practices, deferred tax expense is not recorded for certain temporary differences (primarily related to utility property, plant and equipment). As the deferred taxes become payable (over periods exceeding 30 years for some generating plant differences) they are recovered through rates. Accordingly, IPC has recorded deferred tax liabilities and regulatory assets for certain temporary differences, as identified in Note 1(c).

Alliant Energy files a consolidated federal income tax return. Under the terms of an agreement between Alliant Energy and its subsidiaries (including IPC), the subsidiaries calculate their respective federal income tax provisions and make payments to or receive payments from Alliant Energy as if they were separate taxable entities.

(e) Temporary Cash Investments - Temporary cash investments are stated at cost, which approximates market value, and are considered cash equivalents for the Statements of Cash Flows. These investments consist of short-term liquid investments that have maturities of less than 90 days from the date of acquisition.

(f) Depreciation of Utility Property, Plant and Equipment - IPC uses the straight-line depreciation methods as approved by its regulatory commissions. The average rates of depreciation for electric and gas properties, consistent with current rate making practices, were as follows:

	1999	1998	1997
Electric	**3.6%**	3.6%	3.6%
Gas	**3.6%**	3.4%	3.4%

(g) Property, Plant and Equipment - Utility plant is recorded at original cost, which includes overhead and administrative costs and Allowance for Funds Used During Construction (AFUDC). AFUDC, which represents the cost during the construction period of funds used for construction purposes, is capitalized as a component of the cost of utility plant. The amount of AFUDC applicable to debt funds and to other (equity) funds, a non-cash item, is computed in accordance with the prescribed FERC formula. These capitalized costs are recovered in rates as the cost of the utility plant is depreciated. The aggregate gross rates used in 1999, 1998 and 1997 were 5.3%, 7.0% and 6.0%, respectively.

Other property, plant and equipment is recorded at original cost. Upon retirement or sale of other property and equipment, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in „Miscellaneous, net" in the Statements of Income. Normal repairs, maintenance and minor items of utility plant and other property, plant and equipment are expensed. Ordinary retirements of utility plant, including removal costs less salvage value, are charged to accumulated depreciation upon removal from utility plant accounts and no gain or loss is recognized.

(h) Operating Revenues - IPC accrues revenues for services rendered but unbilled at month-end in order to more properly match revenues with expenses.

(i) Utility Fuel Cost Recovery - IPC's tariffs provide for subsequent adjustments to its electric and natural gas rates for changes in the cost of fuel and purchased energy and in the cost of natural gas purchased for resale. Changes in the under/over collection of these costs are reflected in „Electric and steam production fuels" and „Cost of utility gas sold" in the Statements of Income. The cumulative effects are reflected on the Balance Sheets as a current asset or current liability, pending automatic reflection in future billings to customers. Purchased capacity costs are not recovered from electric customers through energy adjustment clauses. Recovery of these costs must be addressed in base rates in a formal rate proceeding.

(2) MERGER

On April 21, 1998, IES Industries Inc., WPL Holdings, Inc. and IPC completed a merger forming Alliant Energy. The merger was accounted for as a pooling of interests.

(3) LEASES
IPC's operating lease rental expenses for 1999, 1998 and 1997 were $2.0 million, $0.5 million and $0.5 million, respectively. IPC's future minimum lease payments by year are as follows (in thousands):

Year	Capital Leases	Operating Leases
2000	$14.1	$2,036.8
2001	14.1	1,961.5
2002	14.1	1,332.0
2003	14.1	1,215.7
2004	14.1	324.9
Thereafter	19.0	161.4
	89.5	$7,032.3
Less: Amount representing interest	10.9	
Present value of net minimum capital lease payments	$78.6	

(4) UTILITY ACCOUNTS RECEIVABLE
Utility customer accounts receivable, including unbilled revenues, arise primarily from the sale of electricity and natural gas. At December 31, 1999, IPC was serving a diversified base of residential, commercial and industrial customers and did not have any significant concentrations of credit risk.

(5) BENEFIT PLANS
IPC has a non-contributory defined benefit pension plan that covers substantially all of its employees who are subject to a collective bargaining agreement. Plan benefits are generally based on years of service and compensation during the employees' latter years of employment. Eligible employees of IPC that are not subject to a collective bargaining agreement are covered by the Alliant Energy Cash Balance Pension Plan, a non-contributory defined benefit pension plan. The projected unit credit actuarial cost method was used to compute pension cost and the accumulated and projected benefit obligations. IPC's policy is to fund the pension plan at an amount that is at least equal to the minimum funding requirements mandated by the Employee Retirement Income Security Act of 1974, as amended, and that does not exceed the maximum tax deductible amount for the year.

IPC also provides certain other postretirement benefits to retirees, including medical benefits for retirees and their spouses and, in some cases, retiree life insurance. IPC's funding policy for other postretirement benefits is generally to fund an amount up to the cost calculated using SFAS 106, „Employers'Accounting for Postretirement Benefits Other Than Pensions."

The weighted-average assumptions as of the measurement date of September 30 are as follows:

	Qualified Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Discount rate	7.75%	6.75%	7.25%	7.75%	6.75%	7.25%
Expected return on plan assets	9%	9%	8%	9%	9%	8%
Rate of compensation increase	3.5%	3.5-4.5%	5%	N/A	N/A	N/A
Medical cost trend on covered charges:						
Initial trend range	N/A	N/A	N/A	7%	7%	8%
Ultimate trend range	N/A	N/A	N/A	5%	6%	6%

The components of IPC's qualified pension benefits and other postretirement benefits costs are as follows (in thousands):

	Qualified Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Service cost	$1,240	$2,057	$2,431	$1,352	$1,388	$1,266
Interest cost	2,114	4,146	3,730	3,074	2,861	2,911
Expected return on plan assets	(2,688)	(4,497)	(4,236)	(1,636)	(1,215)	(823)
Amortization of:						
Transition obligation	153	305	341	1,203	1,416	1,543
Prior service cost	136	270	203	(226)	(257)	(280)
Actuarial loss (gain)	--	173	--	143	(25)	61
Total	$ 955	$2,454	$2,469	$3,910	$4,168	$4,678

During 1998, IPC recognized an additional $2.9 million of costs in accordance with SFAS 88 for severance and early retirement programs. In addition, during 1999 and 1998, IPC recognized $0.5 million and $5.4 million, respectively, of curtailment charges relating to IPC's other postretirement benefits.

The pension benefit cost shown above (and in the following tables) for 1999 and 1998 represents the pension benefit cost for bargaining unit employees of IPC for the entire year and non-bargaining employees of IPC through July 31, 1998, covered under the IPC Retirement Income Plan sponsored by IPC. The pension benefit cost for IPC's non-bargaining employees who are now participants in other Alliant Energy plans was $0.5 million and $1.0 million for 1999 and 1998, respectively, including a special charge of $0.9 million in 1998 for severance and early retirement window programs. In addition, Alliant Energy Corporate Services, Inc. (Corporate Services) provides services to IPC. The allocated pension benefit costs associated with these services was $550,000 and $250,000 for 1999 and 1998, respectively. The other postretirement benefit cost shown above for each period (and in the following tables) represents the other postretirement benefit cost for all IPC employees. The allocated other postretirement benefit cost associated with Corporate Services for IPC was $191,000 and $75,000 for 1999 and 1998, respectively.

The assumed medical trend rates are critical assumptions in determining the service and interest cost and accumulated postretirement benefit obligation related to postretirement benefit costs. A one percent change in the medical trend rates for 1999, holding all other assumptions constant, would have the following effects (in thousands):

	1 Percent Increase	1 Percent Decrease
Effect on total of service and interest cost components	$ 700	($ 550)
Effect on postretirement benefit obligation	$3,700	($3,100)

A reconciliation of the funded status of IPC's plans to the amounts recognized on IPC's Balance Sheets at December 31 is presente below (in thousands):

	Qualified Pension Benefits		Other Postretirement Benefits	
	1999	1998	1999	1998
Change in benefit obligation:				
Net benefit obligation at beginning of year	$30,131	$56,210	$45,518	$46,242
Service cost	1,240	2,057	1,352	1,388
Interest cost	2,114	4,146	3,074	2,861
Plan participants' contributions	--	--	--	75
Plan amendments	--	--	(1,424)	--
Actuarial loss (gain)	(5,174)	4,938	(10,175)	(4,016)
Acquisitions/divestitures	--	(37,099)	--	--
Curtailments	--	(1,462)	321	915
Special termination benefits	--	2,739	--	--
Gross benefits paid	(254)	(1,398)	(2,396)	(1,947)
Net benefit obligation at end of year	28,057	30,131	36,270	45,518
Change in plan assets:				
Fair value of plan assets at beginning of year	29,914	51,618	18,400	14,722
Actual return on plan assets	112	8,979	830	1,298
Employer contributions	--	--	3,253	4,252
Plan participants' contributions	--	--	--	75
Acquisitions/divestitures	--	(29,285)	--	--
Gross benefits paid	(254)	(1,398)	(2,396)	(1,947)
Fair value of plan assets at end of year	29,772	29,914	20,087	18,400
Funded status at end of year	1,715	(217)	(16,183)	(27,118)
Unrecognized net actuarial loss (gain)	(266)	2,331	(5,127)	3,802
Unrecognized prior service cost	1,308	1,444	(896)	(1,122)
Unrecognized net transition obligation	472	626	14,088	17,493
Net amount recognized at end of year	$ 3,229	$ 4,184	($8,118)	($6,945)
Amounts recognized on the *Balance Sheets consist of:*				
Prepaid benefit cost	$ 3,229	$ 4,184	$ --	$ 592
Accrued benefit cost	--	--	(8,118)	(7,537)
Net amount recognized at measurement date	3,229	4,184	(8,118)	(6,945)
Contributions paid after 9/30 and prior to 12/31	--	--	2,459	971
Net amount recognized at 12/31	$ 3,229	$ 4,184	($5,659)	($5,974)

Alliant Energy sponsors a non-qualified pension plan which covers certain current and former officers. The pension expense allocated to IPC for this plan was $0.7 million, $1.6 million and $0.6 million in 1999, 1998 and 1997, respectively.

IPC employees also participate in defined contribution pension plans (401(k) plans) covering substantially all employees. IPC's contributions to the plans, which are based on the participants' level of contribution, were $0.3 million, $0.5 million and $0.3 millic in 1999, 1998 and 1997, respectively.

(6) COMMON, PREFERRED AND PREFERENCE STOCK

(a) Common Stock - IPC has common stock dividend restrictions based on its respective bond indentures and articles of incorporation. IPC has restrictions on the payment of common stock dividends that are commonly found with preferred stock. IPC's ability to pay common stock dividends is restricted based on requirements associated with sinking funds.

(b) Preferred and Preference Stock - In 1993, IPC issued 545,000 shares of 6.40%, $50 par value preferred stock with a final redemption date of May 1, 2022. Under the provisions of the mandatory sinking fund, beginning in 2003, IPC is required to redeem annually $1.4 million of 6.40% preferred stock (27,250 shares).

The carrying value of IPC's cumulative preferred stock at December 31, 1999 and 1998 was $35 million. The fair market value, based upon the market yield of similar securities and quoted market prices, at December 31, 1999 and 1998 was $36 million and $39 million, respectively.

(7) SHORT-TERM DEBT

IPC participates in a utility money pool with IES Utilties Inc.(IESU), and IPC that is funded, as needed, through the issuance of commercial paper by Alliant Energy. Interest expense and other fees are allocated based on borrowing amounts. Information regarding short-term debt is as follows (dollars in millions):

	1999	1998	1997
As of year end:			
Money pool borrowings	$ 39.2	$ 21.8	$ --
Commercial paper outstanding	$ --	$ --	$33.5
Interest rate on money pool borrowings	5.84%	5.17%	N/A
Discount rates on commercial paper	N/A	N/A	5.88%
For the year ended:			
Average amount of short-term debt (based on daily outstanding balances)	$ 26.3	$ 14.0	$ 28.1
Average interest rate on short-term debt	5.27%	5.59%	5.60%

(8) LONG-TERM DEBT

Substantially all of IPC's utility plant is secured by its First Mortgage Bonds. Debt maturities (excluding periodic sinking fund requirements, which will not require additional cash expenditures) for 2000 to 2004 are $0 million, $0 million, $0 million, $1.0 million and $0 million, respectively. Depending upon market conditions, it is currently anticipated that a majority of the maturing debt will be refinanced with the issuance of long-term securities.

The carrying value of IPC's long-term debt at December 31, 1999 and 1998 was $170 million. The fair market value, based upon the market yield of similar securities and quoted market prices, at December 31, 1999 and 1998 was $171 million and $184 million, respectively.

(9) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of IPC's current assets and current liabilities approximates fair value because of the short maturity of such financial instruments. Since IPC is subject to regulation, any gains or losses related to the difference between the carrying amount and the fair value of its financial instruments may not be realized by IPC's parent.

(10) COMMITMENTS AND CONTINGENCIES

(a) Purchased-Power, Coal and Natural Gas Contracts - Corporate Services has entered into purchased-power capacity contracts as agent for IPC, Wisconsin Power and Light Company (WP&L) and IESU. Based on the System Coordination and Operating Agreement, Alliant Energy annually allocates purchased-power contracts to the individual utilities. Such process considers factors such as resource mix, load growth and resource availability. In addition, Corporate Services has entered into various coal contracts as agent for IPC, WP&L and IESU. Contract quantities are allocated to specific plants at the individual utilities based on various factors including projected heat input requirements, combustion compatibility and efficiency. However, in 2000 and 2001, system-wide contracts of $24.6 million (6.5 million tons) and $12.5 million (3.6 million tons), respectively, have not yet been allocated to the individual utilities due to the need for additional analysis of combustion compatibility and efficiency. The minimun commitments directly assigned to IPC are as follows (dollars in millions, tons in thousands):

	Purchased-Power		Coal (including transportation costs)	
	Dollars	MWHs	Dollars	Tons
2000	$33.2	61	$9.0	2,109
2001	10.3	61	7.6	1,765
2002	3.1	61	6.1	1,665
2003	3.1	61	5.4	1,516
2004	--	--	3.1	446

Corporate Services is in the process of negotiating several new coal contracts. In addition, it expects to supplement its coal contract with spot market purchases to fulfill its future fossil fuel needs. IPC also has various natural gas supply, transportation and storage contracts outstanding. The minimum dekatherm commitments, in millions, for 2000-2004 are 31.7, 26.6, 18.6, 14.9 and 0, respectively. The minimum dollar commitments for 2000-2004, in millions, are $14.7, $12.8, $5.7, $4.4 and $0, respectively. The gas supply commitments are all index-based. IPC expects to supplement its natural gas supply with spot market purchases as neede

(b) Information Technology Services - Alliant Energy has an agreement, expiring in 2004, with Electronic Data Systems Corporation (EDS) for information technology services. IPC's anticipated operating and capital expenditures under the agreement i 2000 are estimated to total approximately $0.6 million. Future costs under the agreement are variable and are dependent upon IPC' level of usage of technological services from EDS.

(c) Environmental Liabilities - IPC had recorded the following environmental liabilities, and regulatory assets associated with certain of these liabilities, as of December 31 (in millions):

Environmental liabilities	1999	1998	Regulatory assets	1999	1998
MGP sites	**$16.2**	$17.5	MGP sites	**$15.7**	$17.5
Other	**0.5**	0.6			
	$16.7	$18.1			

IPC's significant environmental liabilities are discussed further below.

Manufactured Gas Plant (MGP) Sites - IPC has current or previous ownership interests in 9 sites previously associated with the production of gas for which it may be liable for investigation, remediation and monitoring costs relating to the sites. The companie: are working pursuant to the requirements of various federal and state agencies to investigate, mitigate, prevent and remediate, wher necessary, the environmental impacts to property, including natural resources, at and around the sites in order to protect public heal and the environment. IPC believes that it has completed the remediation at various sites, although it is still in the process of obtaini final approval from the applicable environmental agencies for some of these sites.

IPC records environmental liabilities based upon periodic studies, most recently updated in the third quarter of 1999, related to the MGP sites. Such amounts are based on the best current estimate of the remaining amount to be incurred for investigation, remediat and monitoring costs for those sites where the investigation process has been or is substantially completed, and the minimum of the estimated cost range for those sites where the investigation is in its earlier stages. It is possible that future cost estimates will be reater than current estimates as the investigation process proceeds and as additional facts become known. The amounts recognize as liabilities are reduced for expenditures made and are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their fair value.

Management currently estimates the range of remaining costs to be incurred for the investigation, remediation and monitoring of all IPC sites to be approximately $11 million to $20 million.

The MPUC allows the deferral of MGP-related costs applicable to the Minnesota sites and IPC has been successful in obtaining approval to recover such costs in rates in Minnesota. The IUB has permitted utilities to recover prudently incurred costs. As a result regulatory assets have been recorded by IPC which reflect the probable future rate recovery, where applicable. Considering the current rate treatment, and assuming no material change therein, IPC believes that the clean-up costs incurred for these MGP sites wi not have a material adverse effect on its financial condition or results of operations.

IPC has settled with all but one of its insurance carriers regarding reimbursement for its MGP-related costs. Insurance recoveries of $5.3 million and $4.8 million were available as of December 31 1999 and 1998, respectively.

Pursuant to its applicable rate making treatment, IPC has recorded its recoveries in „Other long-term liabilities and deferred credits."

(d) Legal Proceedings - IPC is involved in legal and administrative proceedings before various courts and agencies with respect to matters arising in the ordinary course of business. Although unable to predict the outcome of these matters, IPC believes that appropriate reserves have been established and final disposition of these actions will not have a material adverse effect on its financi condition or results of operations.

(11) JOINTLY-OWNED ELECTRIC UTILITY PLANT

Under joint ownership agreements with other Iowa utilities, IPC has undivided ownership interests in jointly-owned electric generating stations and related transmission facilities. Each of the respective owners is responsible for the financing of its portion of the construction costs. Kilowatt-hour generation and operating expenses are divided on the same basis as ownership with each owne reflecting its respective costs in its Statements of Income. Information relative to IPC's ownership interest in these facilities at December 31, 1999 is as follows (dollars in millions):

				1999			1998		
	Ownership Interest %	In-service Date	Plant Name-plate MW Capacity	**Plant in Service**	**Accumulated Provision for Depreciation**	**CWIP**	Plant in Service	Accumulated Provision for Depreciation	CWIP
Coal:									
Neal Unit 4	21.5	1979	640	$ 83.5	$ 51.1	$–	$ 82.1	$ 48.4	$ 1.5
Louisa Unit 1	4.0	1983	738	24.7	12.5	--	24.7	11.7	--
Total IPC				$108.2	$ 63.6	$--	$106.8	$ 60.1	$ 1.5

(12) RELATED PARTY ISSUES

In association with the merger, IPC, IESU and WP&L entered into a System Coordination and Operating Agreement which became effective with the merger. The agreement, which has been approved by FERC, provides a contractual basis for coordinated planning construction, operation and maintenance of the interconnected electric generation and transmission systems of the three utility companies. In addition, the agreement allows the interconnected system to be operated as a single entity with off-system capacity sales and purchases made to market excess system capability or to meet system capability deficiencies. Such sales and purchases are allocated among the three utility companies based on procedures included in the agreement. The sales amounts allocated to IPC wer $21.3 million and $18.0 million for 1999 and 1998, respectively. The purchases allocated to IPC were $65.5 million and $53.3 million for 1999 and 1998, respectively. The procedures were approved by both FERC and all state regulatory bodies having jurisdiction over these sales. Under the agreement, IPC, IESU and WP&L are fully reimbursed for any generation expense incurred support the sale to an affiliate or to a non-affiliate. Any margins on sales to non-affiliates are distributed to the three utilities in proportion to each utility's share of electric production at the time of sale.

Pursuant to a service agreement approved by the Securities and Exchange Commission under the Public Utility Holding Company A of 1935, IPC receives various administrative and general services from an affiliate, Corporate Services. These services are billed t IPC at cost based on payroll and other expenses incurred by Corporate Services for the benefit of IPC. These costs totaled $42.9 million and $23.7 million for 1999 and 1998, respectively, and consisted primarily of employee compensation, benefits and fees associated with various professional services. Corporate Services began operations in May 1998 upon consummation of the merge

At December 31, 1999 and 1998, IPC had an intercompany payable to Corporate Services of $10.1 million and $7.3 million, respectively.

<u>CERTIFICATE</u>

I, Edward M. Gleason, do hereby certify that I am the duly elected, qualified and Secretary of **IES Utilities Inc.**, an Iowa corporation and **Interstate Power Company**, a Delaware corporation; that attached hereto are full, true and correct copies of an Income Statement for the most recent 12 month period, on an actual basis and on a pro forma basis.

IN WITNESS WHEREOF, I have affixed my name as Secretary of IES Utilities Inc. and Interstate Power Company, this 28th day of March, 2000.

EM Gleason

Secretary